

Message Text

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64

ACTION EUR-12

INFO OCT-01 ISO-00 EB-07 COME-00 TRSE-00 FRB-03 CIAE-00

INR-07 NSAE-00 OPIC-03 /033 W
----- 030474

R 061630Z NOV 75

FM AMEMBASSY REYKJAVIK

TO SECSTATE WASHDC 5758

INFO CINCLANT

COMICEDEFOR

AMEMBASSY BERN

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY OSLO

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

USMISSION NATO

C O N F I D E N T I A L REYKJAVIK 1257

E.O. 11652: GDS

TAGS: PFOR, IC, BDIS

SUBJECT: UNION CARBIDE FERROSILICON PLANT

REF: STATE 258151 (NOTAL)

1. SUMMARY. UNION CARBIDE (EUROPE) OFFICIALS IN VISIT TO EMBASSY NOVEMBER 4 ADVISED US THAT THEY WERE EXPERIENCING DIFFICULTIES IN OBTAINING BANK FINANCING FOR THE PLANT BECAUSE OF SERIOUSECONOMIC SITUATION IN ICELAND, AND ACCORDINGLY INTEND TO PROPOSE TO THEIR ICELANDIC PARTNERS THAT PROJECT BE POSTPONED FOR A WHILE (AYEAR OR MORE). EMBASSY SUGGESTED THEY APPROACH MATTER CAUTIOUSLY SO AS NOT CREATE PSYCHOLOGY WHICH WOULD JEOPARDIZE FUTURE US INVESTMENT OR ICELAND'S FINANCIAL REPUTATION ABROAD. EMBASSY SUGGESTED ALSO THAT IN PUBLIC DISCLOSURE OF ACTION GOI BE ALLOWED TO TAKE THE LEAD SO AS TO PUT BEST FACE ON SITUATION
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AND AVOID EMBARRASSMENT TO PRESENT PRO-AMERICAN GOVERNMENT.

END SUMMARY.

2. BACKGROUND. OFFICIALS FROM UC NOTED A CHANGE IN MONEY MARKETS SINCE LAST APRIL WHEN THEY HAD BELIEVED THEY WOULD HAVE NO PROBLEM FINANCING THE FERROSILICON PLANT. BANKERS ARE NOW CONCERNED BECAUSE PLANT CONSTRUCTION HAS GONE UP FROM \$60 MILLION TO \$80 MILLION, FERROSILICON PRICES ARE DOWN BECAUSE OF DEPRESSED STEEL SALES, AND THE LARGE AMOUNT OF ICELANDIC PAPER WHICH WOULD BE IN CIRCULATION BECAUSE OF THAT COUNTRY'S PRESENT ATTEMPTS TO BORROW \$30 MILLION TO BACKSTOP FOREIGN RESERVES. UC OFFICIALS PLAN TO SIT DOWN NOVEMBER 6 AND 7 WITH ICELANDIC PARTNERS AND EXPLAIN FINANCIAL FACTS OF LIFE, PROPOSING THAT : (1) PROJECT BE POSTPONED UNTIL CIRCUMSTANCES FOR FINANCING IMPROVE, (2) ICELANDIC PARTNERS ARRANGE FINANCING, OR, (3) A THIRD PARTNER BE BROUGHT IN, POSSIBLE BRITISH STEEL OR ALUSUISSE (WHICH PRESENTLY OPERATES ALUMINUM REDUCTION PLANT IN ICELAND).

3. UC OFFICIALS EMPHASIZED THAT THERE WAS NO (REPEAT NO) TROUBLE BETWEEN THEM AND THEIR GOI PARTNERS. NOR WAS THERE ANY DESIRE ON UC'S PART TO BACK OUT OF THE DEAL. IT WAS SIMPLY THAT PRESENT CIRCUMSTANCES PRECLUDED GOING AHEAD AT THIS TIME WITH THE PROJECT. THE PLANT SITE WAS BEING CLEARED BUT WINTER WOULD PREVENT FURTHER WORK TILL NEXT APRIL. ANOTHER LOOK COULD BE GIVEN THE SITUATION THEN.

4. AMBASSADOR, WHILE STATING MATTER WAS IN HAND OF UC, EXPRESSED HIS CONCERN OVER POSSIBLE REPERCUSSIONS, ESPECIALLY FOR FUTURE AMERICAN INVESTMENT, AND URGED CAREFUL HANDLING OF THE MATTER SO AS TO MINIMIZE ANY ILL FEELING WITH ICELANDERS. ANY ABRUPT NOTICE COULD AFFECT STABILITY OF PRESENT FRIENDLY ICELANDIC GOVERNMENT AND ENDANGER US BROADER INTERESTS. IT WAS SUGGESTED THAT PUBLICITY ON THE MATTER BE WORKED OUT CAREFULLY WITH ICELANDERS FOR DOMESTIC AS WELL AS FOR INTERNATIONAL REASONS.

5. UC OFFICIALS CONCURRED IN EMBASSY ASSESSMENT AND NEED FOR CAUTION AND PROMISED TO INFORM THE EMBASSY PRIOR TO THEIR
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DEPARTURE ON NOV 7 OR 8 OF OUTCOME OF TALKSWITH
ICELANDERS.
IRVING

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NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSTRUCTION, FINANCIAL AGREEMENTS, INDUSTRIAL PLANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 06 NOV 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975REYKJA01257
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750386-1115
From: REYKJAVIK
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751168/aaaacioe.tel
Line Count: 110
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 STATE 258151
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 29 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29 APR 2003 by BoyleJA>; APPROVED <30 SEP 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: UNION CARBIDE FERROSILICON PLANT
TAGS: PFOR, BDIS, IC, UNION CARBIDE
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006